

Title of Exposure Draft: ASOP No. 12 Risk Classification

Comment Deadline: May 1, 2024

Instructions: Please review the exposure draft, and give the ASB the benefit of your recommendations by completing this comment template. Please fill out the tables within the section below, adding rows as necessary. Sample for completing the template provided at the following link: <http://www.actuarialstandardsboard.org/email/2020/ASB-Comment-Template-Sample.docx>

Each completed comment template received by the comment deadline will receive consideration by the drafting committee and the ASB. The ASB accepts comments by email. Please send to comments@actuary.org and include the phrase 'ASB COMMENTS' in the subject line. Please note: Any email not containing this exact phrase in the subject line will be deleted by our system's spam filter.

The ASB posts all signed comments received to its website to encourage transparency and dialogue. Comments received after the deadline may not be considered. Anonymous comments will not be considered by the ASB nor posted to the website. Comments will be posted in the order that they are received. The ASB disclaims any responsibility for the content of the comments, which are solely the responsibility of those who submit them.

I. Identification:

Name of Commentator / Company
Richard Fox, FCAS MAAA / West Bend Insurance Co.

II. ASB Questions (If Any). Responses to any transmittal memorandum questions should be entered below.

Question No.	Commentator Response

III. Specific Recommendations:

Section # (e.g. 3.2.a)	Commentator Recommendation (Please provide recommended wording for any suggested changes)	Commentator Rationale (Support for the recommendation)
2.8	Delete this definition	"Unintended Bias" is poorly defined. The thinking around this term is rapidly evolving in the industry. Trying to anchor to a specific definition amid this change is likely to rapidly become outdated.
3.4	Delete this section	"Multivariate Effects" in section 3.2.4 already covers the interactions between risk characteristics. In addition, there is not widespread industry agreement that risk classification frameworks should test for "Unintended Bias." Finally, section 3.2.8 already addresses situations concerning legal or regulatory compliance, so this topic does not need to be identified separately (if regulation requires it).
3.5	Delete this section	This section is unnecessary. The actuary should follow applicable law. It is not necessary to enumerate a specific bit of law. By doing so it tends to confuse whether other areas of the law that are not mentioned are to be followed also.

IV. General Recommendations (If Any):

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Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
Include language like the second paragraph of section 3.2.1 of the current ASOP 12. This language is: “Rates within a risk classification system would be considered equitable if differences in rates reflect material differences in expected cost for risk characteristics. In the context of rates, the word fair is often used in place of the word equitable.”	Pricing to expected cost is an essential element of fairness and a key anchor when dealing with regulators. The omission of this language will introduce ambiguity and increase regulatory risk.

V. Signature:

Commentator Signature	Date
Richard Fox, FCAS MAAA	4/30/24